

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In Re:

Case No. 04-31444

Helical Dynamics, Inc.

DEBTOR'S PLAN OF REORGANIZATION

Debtor, Helical Dynamics, Inc., hereby proposes the following Plan of Reorganization pursuant to the provisions of Chapter 11 of the Bankruptcy Code.

ARTICLE I

DEFINITIONS

A. DEFINED TERMS.

The following terms shall have the respective meanings hereinafter set forth. Any terms contained in this Plan that are not specifically defined shall have the meaning provided for in the Bankruptcy Code, unless the context otherwise requires.

1. "Administrative Expenses" means Claims allowed under § 503(b) and § 507(a)(1) of the Bankruptcy Code and fees and charges assessed against a Debtor's estate under 29 U.S.C. § 1930.

2. "Allowed Claim," "Allowed Secured Claim," "Allowed Priority Claim" or "Allowed Unsecured Claim" mean, respectively, a Claim, Secured Claim, Priority Claim, or Unsecured Claim against a Debtor to the extent that:

(a) a proof of such Claim was

(i) timely filed;

(ii) deemed filed pursuant to § 1111(a) of the Bankruptcy Code;

or

(iii) late filed with leave of the Bankruptcy Court after notice and opportunity for hearing given to counsel for Debtor and the Creditors' Committee appointed in this Chapter 11 case; and

(b) (i) which is not a Disputed Claim; or

(ii) which is allowed (and only to the extent allowed) by a Final Order.

3. "Bankruptcy Code" means Title 11 of the United States Code, as amended.

4. "Bankruptcy Court" means the United States Bankruptcy Court for the District of Minnesota or, in the event such court ceases to exercise jurisdiction over this Chapter 11 case, the Court having jurisdiction over this Chapter 11 case.

5. "Business Day" means any day other than a Saturday, Sunday, or a day on which banking institutions in the State of Minnesota are not open to conduct business.

6. "Cash" means Cash and Cash equivalents including, but not limited to, bank deposits, checks, and other similar items.

7. "Claim" means a claim as such term is defined in § 101(4) of the Bankruptcy Code.

8. "Claimant" means the holder of a Claim.

9. "Claims Bar Date" means such date as established by the Bankruptcy Court or applicable bankruptcy rule as the last day to file a Claim.

10. "Confirmation Date" means the date on which the Confirmation Order is entered.

11. "Confirmation Order" means the Order of the Bankruptcy Court confirming the Plan pursuant to § 1129 of the Bankruptcy Code.

12. "Debtor" means Helical Dynamics, Inc.

13. "Disclosure Statement" means the Disclosure Statement that is approved by the Bankruptcy Court after notice and hearing and which accompanies this Plan.

14. "Disputed Claim" means a Claim asserted against a Debtor (i) to which an objection has been filed, or (ii) which has been scheduled as disputed, contingent or

unliquidated and which has been resolved or allowed by Final Order, estimation or pursuant to this Plan.

15. "Distributions" mean, as the context may require, the Cash, notes or property required by the Plan to be distributed to the holders of Allowed Claims, or any Distribution thereof to such parties.

16. "Effective Date" means the first day of the first calendar month following the date on which a Final Order confirming this Plan is entered.

17. "Filing Date" means March 11, 2004.

18. "Final Order" means an Order of the Bankruptcy Court as to which (a) any appeal that has been taken has been finally determined or dismissed; (b) the time for appeal has expired and no notice of appeal has been filed.

19. "Interest" means the shareholder interest of any shareholder in Debtor.

20. "Plan" means this Debtors' Plan of Reorganization, as the same may be amended or modified.

21. "Pre-Petition Claims" means all Claims arising or accruing prior to the Filing Date, including Claims arising from the rejection, after the Filing Date, of executory contracts and expired leases.

22. "Priority Claims" means the Claims specified in § 507(a)(2) through (8), inclusive, of the Bankruptcy Code.

23. "Pro Rata" means proportionately so that the ratio of the amount of Distributions on account of a particular Allowed Claim or Interest to the amount of that Allowed Claim or is the same as the ratio of the amount of Distributions on account of all Allowed Claims or Interests of the class in which the particular Allowed Claim or Interest is included to the amount of all Allowed Claims or Interests of that class.

24. "Reorganized Debtor" means the Debtor following the Confirmation Date.

25. "Pro Rata Share" means, as to a Claimant, the amount determined by multiplying the total amount of the Debtor's payment to a particular Class by a fraction, the numerator of which is the amount of the Claimant's Allowed Claim and the denominator of which is the total amount of Allowed Claims in that Class.

26. "Schedules" means the schedules of assets and liabilities of Debtor on file with the Clerk of Bankruptcy Court for the District of Minnesota, as from time to time amended in accordance with Bankruptcy Rule 1009.

27. "Secured Claim" means any Claim in respect of which a valid lien, security interest or encumbrance is held in any assets of Debtor.

28. "Unsecured Claims" mean all unsecured non-priority Allowed Claims against any Debtor, including any deficiency claim of the holder of a Secured Claim and any Claim arising from the rejection of any executory contract or unexpired lease of the Debtors. Unsecured Claims do not include any deficiency Claim of the holder of a Secured Claim if said Claim is non-recourse and the security is sold or tendered to the holder of the Secured Claim.

B. UNDEFINED TERMS.

A term used and not defined herein which is defined in the Bankruptcy Code shall have the term defined therein, unless the context clearly requires otherwise. A term not defined herein nor defined in the Bankruptcy Code shall have its normal meaning, unless the context clearly requires otherwise.

ARTICLE II

TREATMENT OF CERTAIN PRIORITY CLAIMS

Allowed Claims that are not classified shall be treated as follows:

- a. Allowed Administrative Expense Claims, except as otherwise classified herein, and including fees of professionals, shall be paid in full in cash on the Effective Date or as soon as practicable thereafter, or on such other date as the Court may fix, or in the ordinary course of business as the claims mature, or upon such other terms as may be agreed upon by each claimant and Debtor. Debtor estimates that total claims for professional fees will be approximately \$40,000.00.
- b. Unpaid post-petition Administrative Expense Claims incurred in the ordinary course of Debtor's business will be paid as such claims become due, as agreed between each Claimant and Debtor, or otherwise in the ordinary course of Debtor's business.
- c. Executory contracts or unexpired leases that are assumed by Debtor during the Chapter 11 case will be paid according to the terms of the contracts or leases or according to the terms of any order of the Court approving assumption of such contract or lease or as otherwise provided for in Debtor's Plan. The contracts the Debtor intends to assume are described in Article III of the Plan. All executory contracts not specified in Article III are being rejected as of the Confirmation date.

- d. Fees payable by Debtor under 28 U.S.C § 1930 will be paid in full in cash on the Effective Date, the Debtor will continue to report its monthly disbursements and make payments to the U.S. Trustee until no longer legally obligated to do so.

ARTICLE III

TREATMENT OF CLASSIFIED CLAIMS AND INTERESTS

1. Class A Claims - Priority Wage Claims.

This class consists of all Allowed Claims of Debtor's former employees entitled to priority pursuant to Bankruptcy Code § 507(a)(3). The Debtor does not believe there are any claims in this Class.

Treatment.

Allowed Claims, if any, in this class will be paid in full in Cash upon the Effective Date of the Plan.

2. Class B Claim - Secured Claim of Citicorp. Dell Lease, Inc.

This class consists of the claim of CitiCapital Commercial Corporation f/k/a Citicorp Del-Lease, Inc. ("Dell"), secured by a lien on a forklift owned by the Debtor. The amount of the claim as determined by the Bankruptcy Court Order which was entered August 5, 2004 is \$15,548.27.

Treatment.

The Order entered by the Bankruptcy Court on August 5, 2004 required the Debtor to make certain payments on a monthly basis to the Class B Claimant. The payments are described in paragraph 2 of the Bankruptcy Court Order. The Debtor will continue to make said payments until the Class B Claim is paid in full.

3. Class C Claim - Secured Claim of Expert Leasing Company.

This Claim consists of the Secured claim of Expert Leasing Company secured by a first security interest on cash, cash equivalents and accounts receivable. The amount on the Claim as of the Filing Date was \$379,837.00.

Treatment.

The Debtor has paid the Class C Claim in full through collections of accounts receivable.

4. Class D - Secured Claim of Expert Leasing Company.

This Claim consists of the Secured Claim of Expert Leasing Company arising out of post petition purchase order financing provided by Expert Leasing Company to the Debtor. The amount of the Claim as of September 8, 2004 is \$1,113,008.00.

Treatment.

The Debtor will cause the Class D Claim to be paid in full through collections of accounts receivable owing by Daimler Chrysler Corporation.

5. Class E - Secured Claim of Internal Revenue Service.

This Claim consists of the alleged Secured Claim of the Internal Revenue Service ("IRS") by virtue of a tax lien filed with the Minnesota Secretary of State. The Debtor alleges that the Claim is in fact an unsecured claim as a result of the operation of 11 U.S.C. §506.

Treatment.

The Claim will be paid in accordance with 11 U.S.C. §1129(a)(9)(c) at an interest rate of 5% per annum of this Plan of Reorganization.

6. Class F - Tax Lien Claim of the Minnesota Department of Revenue.

This Claim consists of the alleged Secured Claim asserted by the Minnesota Department of Revenue by virtue of a tax lien filed with the Minnesota Secretary of State. The Debtor alleges that the Claim is in fact an unsecured claim as a result of the operation of 11 U.S.C. §506.

Treatment.

The Claim will be paid in accordance with 11 U.S.C. §1129(a)(9)(c) at an interest rate of 5% per annum of this Plan of Reorganization.

7. Class G - Secured Claim of the Small Business Administration.

This Claim consists of the Secured Claim of the Small Business Administration ("SBA") secured by a security interest on the Debtor's accounts and machinery and equipment. The Claim is in the approximate amount of \$870,000.00.

Treatment.

The Debtor proposes to pay the allowed secured claim of the Class G Claimant by making monthly payments with 5% interest amortized over a period of 20 years. Monthly payments on this obligation will be in the amount of \$4,300.00 per month.

8. Class H - Secured Claim of Toyota Motor Credit Corporation.

This Claim consists of three Leases entered into between the Debtor and Toyota Motor Credit Corporation in 2001. The Leases are subject to an adequate protection order entered by the Bankruptcy Court on May 14, 2004.

Treatment.

The Debtor proposes to continue the Lease payments due to the Class H Claimant making monthly payments pursuant to the contracts between the Debtor and the Class H Claimant.

9. Class I - Secured Claim of GE Capital Services.

This Claim consists of a balance due the Class I Claimant by the Debtor arising as a result of certain copier Leases entered into in 1998. The balance due is in the amount of \$3,000.00. The balance was determined by an Order of the Bankruptcy Court dated July 27, 2004.

Treatment.

The balance due the Class I Claimant by the Debtor is \$3,000.00. The amount will be paid, if not earlier, on the Effective Date.

10. Class J - Secured Claim of GCI Capital Services Corp.

This Claim consists of the Secured Claim of GCI Capital Services Corp ("GCI") secured by a first security interest and lien on certain equipment owned by the Debtor.

Treatment.

The Claim will be paid, in full, on the Effective Date, from funds received from Plymouth Pond Development, Inc., who will acquire, by assignment, the lien and security interest of the Class J Claimant.

11. Class K - Secured Claim of Plymouth Ponds Development.

This Claim consists of the Claim for prepetition unsecured rent held by the

Debtor's Landlord. The Claimant is Plymouth Development Company, Inc. The Claim is evidenced by a Judgment Docketed in Hennepin County District Court. The amount of the Claim is \$350,000.00.

Treatment.

The Debtor will pay the Claim held by the Class K Claimant, in full, on the Effective Date. The funds to pay this Claim will be obtained from a loan through the Debtor. The Debtor intends to enter into a Lease Modification Agreement on the Effective Date which will result in the executory contract between the Class K Claimant and the Debtor being affirmed.

12. Class L – Unsecured Creditors.

This Class consists of the claims of Debtor's Unsecured Creditors. The Debtor believes that the approximate amount of such unsecured claim is \$286,000.00. (including disputed claims).

Treatment.

Unsecured creditors (not including the claim of the Debtors landlord) will receive a distribution of 15% of their Claims on the Effective Date and 12.5% at the end of each of the calendar years 2005, 2006, 2007 and 2008, for a total of 65% (the "65% Distribution").

Unsecured Creditors will receive an additional 10% of their Claim in each of the years 2005, 2006, 2007 and 2008 in which Debtor's gross sales exceed \$4 million (the "Sales Distribution").

The 65% Distribution and any accrued Sales Distribution will be accelerated and will be immediately payable in full upon any shareholder's sale of Debtor's stock or the sale of all or substantially all of Debtor's assets. The buyer will assume any additional Sales Distribution obligation.

13. Class M - Stockholder Interests:

This Class consists of the Shareholder Interests of Shareholders of Debtor as of the Effective Date.

Treatment.

The Shareholders will retain their stockholder interests in the Debtor.

ARTICLE IV

CLASSES OF CLAIMS AND INTERESTS IMPAIRED UNDER PLAN

Class A, Class B, Class C, Class D, Class E, Class F, Class G, Class H, Class I, Class J, Class K and Class M are unimpaired under this Plan. All other classes are impaired under the Plan and are entitled to vote on the Plan.

ARTICLE V

GENERAL PROVISIONS

- a. Payments under this Plan will be made by check, mailed with first class postage prepaid, to the claimant at the address listed on its Proof of Claim or, if no proof of claim has been filed by the date of the hearing on confirmation, to the address listed on the Schedules.
- b. Payments and other distributions under this Plan will be made as soon as practicable on or following the Effective Date, except as otherwise specified in this Plan. Payments to Class I Creditors will be paid on the Effective Date.
- c. In the event a payment is returned to Debtor unclaimed, with no indication of claimant's forwarding address, Debtor will hold such payment for a period of six months from the date of return. If not claimed by the claimant by the end of that period, the payment shall become the property of Debtor.
- d. In the event this Plan is not confirmed under Bankruptcy Code § 1129(a), Debtor requests that this Plan be confirmed under Bankruptcy Code § 1129(b).
- e. Debtor reserves and retains the right after confirmation to pursue any claims against third parties, including preference and fraudulent transfers.
- f. Debtor shall have the right to prepay any obligation under this Plan without penalty.

ARTICLE VI

MEANS FOR EXECUTION OF PLAN

The Debtor will pay Administrative Expenses in Cash upon Confirmation of the Plan. The Debtor will pay Priority Wage Claims in Cash upon Confirmation of the Plan.

of Reorganization. The Debtor will pay Priority Tax Claims over a period of six years from assessment in accordance with 11 U.S.C. §1129. The Debtor will cause payments to be made to other Classes as described above. The management of the Debtor will be provided by Michael Diachuk and Walter Diachuk who will constitute the Debtor's Board of Directors.

ARTICLE VII CONTESTED CLAIMS

No payment shall be made under the Plan with respect to a Contested Claim, unless estimated by the Court for such purposes, until that Claim becomes an Allowed Claim, by agreement of the parties to any Claim disputed or by Final order of the Court. As soon as practicable after the Allowed Claim is established by agreement or final order, Debtor shall pay to the holder of such Allowed Claim the amount provided in the Plan.

If a Contested Claim is contained within a class that is to receive a Pro-Rata Share, Debtor will determine each claimant's Pro-Rata Share by treating the asserted amount of the contested claim as an Allowed Claim for purposes of calculating the total of all allowed Claims in the class. When all contested claims in the class have been allowed or disallowed by a Final Order, Debtor will make any additional distribution required because of the disallowance of all or part of any contested Claim or Claims. Debtor may, at its option, choose to make interim distributions as contested claims are resolved, however, the Debtor will create a reserve of funds with respect to contested Claims until all contested Claims are resolved.

ARTICLE VIII MODIFICATION OF THIS PLAN

Debtor may amend or modify this Plan in the manner provided for under Bankruptcy Code § 1127(a) or (b). Debtor shall give notice of any proposed modification to Counsel for the Committee and to the United States Trustee and to any other parties designated by the Court. Debtor also reserves the right to make such modifications at any hearings on confirmation as are necessary to permit this Plan to be confirmed under Bankruptcy Code § 1129(b).

ARTICLE IX CONTINUING JURISDICTION

The Bankruptcy Court shall retain jurisdiction until this Plan has been fully consummated for the following purposes: classification of the claims of creditors and allowance of the claims of creditors; allowance of claims for damages from the rejection


of executory contracts or unexpired leases; determination of all questions and disputes regarding title to the assets of the estate and determination of all causes of actions between Debtor and any other party, including but not limited to any right of Debtor to recover assets pursuant to the provisions of the Bankruptcy Code; any pending litigation, correction of any defect, the curing of any omission or the reconciliation of any inconsistency in this Plan or the order of confirmation as may be necessary to carry out the purpose and intent of this Plan; interpretation and enforcement of the terms of this Plan; shortening or extending, for cause, of any time fixed for doing any act or thing under this Plan; entry of any Order, including any injunction, necessary to enforce the title, rights, and powers of Debtor; and entry of an Order concluding and terminating this case. The Court may exercise its jurisdiction after notice and hearing or ex parte, as the Court determines to be appropriate.

As recited above, all liens, secured claims, encumbrances and mortgages held by any creditor of the Debtor will be released and discharged on the Confirmation Date. The Debtor will retain ownership interest in all of its property, free and clear of all security interests, claims, judgments and liens, except those specifically reserved and retained as described in this Plan.

Dated: September 21, 2004.

HELICAL DYNAMICS, INC.

By



Walter Diachuk
Its President